

EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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Remarks:

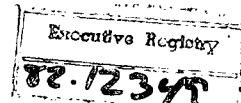
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NSC review completed.

Executive Secretary
18/6/82
 Date

THE WHITE HOUSE
WASHINGTON



DDI- 8079/82

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 10-5-82 NUMBER: 077522CA DUE BY: _____

SUBJECT: CCFA with the President - 10/6/82

Cabinet Room

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The President will chair a meeting of the Cabinet Council on Food and Agriculture tomorrow at 10:20 (40 minutes) in the Cabinet Room. The agenda will be the Wheat Flour Export Subsidy Program. Background papers are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs

THE WHITE HOUSE

WASHINGTON

October 5, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON FOOD AND AGRICULTURE

FROM: DANNY J. BOGGS, EXECUTIVE SECRETARY

SUBJECT: Wheat Flour Export Subsidy Program

I. STATEMENT OF THE ISSUE

Should the U.S. government institute an export subsidy program to promote sales of wheat flour abroad?

II. BACKGROUND

The European Community (EC) subsidizes agricultural exports at an annual outlay of \$7-8 billion in order to dispose of surplus agricultural production resulting from high domestic support prices. This year EC support prices were increased by an average of 11 percent, further encouraging production at a time when the world is faced with a large agricultural surplus. In the face of these subsidies, the U.S. has not gained a fair share of the expanding global market for agricultural products. In fact, U.S. shares of some markets are being eroded by Community subsidies.

In the early 1960s, the U.S. regularly supplied over 45 percent of the world's wheat flour import needs, with the EC share around 25 percent. Today, in a market which has grown very little in 20 years, the EC share is 65 percent. U.S. wheat flour exports account for only 25 percent.

In December 1975, the U.S. wheat flour industry filed a complaint with the U.S. government under section 301 of the Trade Act of 1974. This petition stated that EC export subsidies had unfairly enlarged the EC's share of the world market. Since then, the U.S. has worked bilaterally with the Community to resolve the complaint. Finally, the case was submitted to a GATT dispute settlement panel in January 1982 to be resolved according to GATT rules. Under those rules, a panel decision was due no later than March 22,

1982. Even with procedural delays, a panel decision could have been expected by the end of June 1982. It now appears that a decision cannot be expected before February 1983. The wheat flour case is the oldest of the five 301 cases currently before the GATT.

The Omnibus Budget Reconciliation Act of 1982 contains a provision which requires the Secretary of Agriculture to spend \$175-190 million per year for the next three fiscal years for export activities authorized by current law. The conference report accompanying the Act expresses the intent of the conferees that the Secretary, to the greatest extent practicable and where appropriate, use these funds for interest buy-downs, export credit sales, or direct export subsidies in order that American farmers and exporters may compete in international trade on an equal basis with foreign competitors. The Administration will have to decide how to implement this export promotion program.

III. PROPOSAL

USDA proposes instituting a limited export subsidy program for wheat flour for one year, targeted specifically at Egypt, to counter the EC's export subsidies on wheat flour.

Under USDA's proposal, the subsidy program would establish a fixed landed price for U.S. wheat flour sufficiently competitive to displace the 1.1 million tons of EC flour sold to Egypt on a commercial basis. The U.S. cost would be approximately \$100 million, which would be counted against the \$175-190 million stipulated in the Reconciliation Act. Discussions with the Egyptians would make it clear that the U.S. would consider Egyptian commercial purchases of U.S. wheat flour in allocating PL 480 funds. U.S. exporters would bid competitively against regular tenders, with the lowest subsidy request being awarded the contract. Payment of the subsidy would be made directly to the shipper by USDA.

Should the decision be made to implement the subsidy program, the U.S. should negotiate an agreement with Egypt as quickly and quietly as possible. Advance notice of our intention to seek such an agreement could: 1) build expectations that perhaps could not be met; and 2) alert the EC to the U.S. strategy and perhaps allow them to take actions that might make reaching an agreement with Egypt more difficult. Only after successful conclusion of discussions should any notice be given of the action, and such notice should be handled so as to convey the sense that the action was taken reluctantly. In addition, all public comment should be couched in a manner that is non-confrontational in order to give support to our friends in the EC who oppose subsidies and fear a subsidy war.

It also should be made apparent that the U.S. will not continue the program in future years if the GATT panel rules that subsidies of this type are illegal.

IV. DISCUSSION

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subsidy*

Egypt is the world's largest wheat flour market representing a third of global wheat flour imports. For the EC, Egypt represents a third of total EC flour exports. The Egyptian flour market has nearly doubled in the past three years. The EC, with export subsidies ranging from \$80-100 per ton, captured all of that growth, the U.S. none. The U.S., however, does ship substantial quantities of PL 480 commodities to Egypt, primarily wheat and wheat flour, accounting for approximately 40 percent of the total global PL 480 program.

Implementation of an export subsidy program for wheat flour would constitute a clean break with past U.S. practice of not providing direct export subsidies.

Advantages

The U.S. wheat flour export subsidy to Egypt:

- o Would send a signal that the U.S. is serious about resisting further market erosion at the hands of the EC and wants a speedy resolution of the long-standing subsidies issue;
- o Would result in immediate, direct and significant budgetary losses to the EC, in addition to the large program outlays already involved;
- o Would limit U.S. budgetary exposure through a single-commodity-single-country "target" approach.
- o Would exhibit the Administration's commitment to defend domestic agricultural constituencies from the unfair trade practices of our trading partners.

Disadvantages

Initiation of an export subsidy program for wheat flour shipped to Egypt:

- o Could invite EC retaliation against other U.S. agricultural products such as soybeans and corn gluten; and could further exacerbate U.S.-EC tensions over such matters as the Soviet gas pipeline and steel;

- o Could prompt other commodity groups to request like treatment from the federal government, thus increasing the prospect of large budget outlays;
- o Could annoy U.S. consumers who would be paying more for wheat flour than their foreign counterparts;
- o Could result in the displacement of U.S. and other countries' sales of wheat flour in other markets.

23 AUG 1982

Cabinet Council of Food & Agriculture - June 28 Meeting

Subject: U.S. - Soviet Long-Term Grain agreement

Filed: USSR: Grain

[This document was being held for me to file on my return from vacation. I do not know its origin or who has received copies.]